

INVESTMENT ADVISORY COUNCIL
Wednesday, June 13, 2012

MEETING NO. 396

Members present:

Janice (Jan) Carpenter
Michael Freeman*
Joshua Hall
David (Duke) Himmelreich**
William Murray
Denise L. Nappier, Treasurer**
Joseph (Joe) D. Roxe, Chairman
Carol Thomas
Peter Thor***

Absent:

Thomas Barnes
Thomas Fiore, representing Benjamin Barnes
Laurence N. Hale

Others present:

Christine Shaw, Deputy Treasurer
Lee Ann Palladino, Chief Investment Officer
Gary Carter, Interim Deputy Chief Investment Officer
Catherine LaMarr, General Counsel
Gregory Franklin, Assistant Treasurer
Lawrence Wilson, Assistant Treasurer
Shelagh McClure, Director of Compliance
Joanne Dombrosky, Principal Investment Officer
Terrence Purcell, Interim Principal Investment Officer
Cherie Santos-Wuest, Principal Investment Officer
Donald Kirshbaum, Investment Officer-Policy
Reginald Tucker, Investment Officer
Linda Tudan, Executive Assistant
Winifred (Winnie) Scalora, Administrative Assistant

Interns:

Marcus Anderson
Ethan Aronowitz
Daniel Chapple
Justin Coleman
John ("Mac") Daly
Corey Schmidt
Jeffrey Weldon

Guests:

Bradley Atkins, Franklin Park Associates
Lawrence Bancroft, Bivium Capital Partners
Scott Booth, The Townsend Group
Erin Carney, Protégé Partners
Mary Dunleavy, State Street Bank & Trust

* Arrived at 9:05 a.m.

** Arrived at 9:06 a.m.

*** Arrived at 9:10 a.m.

Cindy Emanuel, Lombardia Capital Partners
Jaleith Gary, Smith Whiley & Company
Sean Gill, NEPC
Alvin Marley, Lombardia Capital Partners
Pamela McKoin, Cornerstone Patriot Fund GP, LLC
Collette Nakhoul, Smith Whiley & Company
Kurt Nyman, Smith Whiley & Company
Denise Rowe Stake, Cornerstone Patriot Fund GP, LLC
Thomas Sass, HFR Asset Management
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
Liz Smith, AllianceBernstein Institutional Investments
Gwendolyn Smith Iloani, Smith Whiley & Company
Nick Stanogev, BNY Mellon
Michael Stark, The Townsend Group
Kevin Vandolder, Hewitt EnnisKnupp, Inc.
Trish Verrochi, Armstrong Shaw Associates Inc.

Chairman Joseph D. Roxe called the Investment Advisory Council (“IAC”) meeting to order at 9:01 a.m. He introduced the newest IAC member, Joshua Hall, First Vice President of the Hartford Federation of Teachers.

Approval of the Minutes of the May 9, 2012 IAC Meeting

With a quorum present, Chairman Roxe asked for comments on the Minutes of the May 9, 2012 IAC meeting. **There being no comments, a motion was made by Mr. Thor, seconded by Ms. Thomas, that the Minutes of the May 9, 2012 IAC meeting be accepted as drafted. The motion was passed with the exception of Mr. Freeman and Mr. Hall who abstained due to their absence from the last meeting.**

Update on the Market and the Connecticut Retirement Plans and Trust Funds Final Performance for the Months Ended April 30, 2012, Combined Investment Funds Review, Watch List and Connecticut Horizon Fund as of March 31, 2012

Lee Ann Palladino, Chief Investment Officer (“CIO”), provided an update on the capital market environment, its impact on the performance of the Connecticut Retirement Plans and Trust Funds (“CRPTF”) and the economic outlook. She reported that the performance of the CRPTF for the month ended April 30, 2012 was virtually flat and that the fiscal year-to-date performance had remained in positive territory. Ms. Palladino next focused on the May 2012 capital market environment, and she commented on the large market moves that occurred due to economic fears in the U.S. and concerns about a 2008-like financial disaster in Europe. She spoke about the increased probability of Greece leaving the Eurozone and the recapitalization of the Spanish Banks and its implications. Ms. Palladino noted that the risk of contagion and the health of financial institutions in the peripheral countries had a negative impact on the global stock markets.

Next, Ms. Palladino reported that two managers had been placed on the CRPTF Watch List. She said that Hartford Investment Management Company (“HIMCO”), an inflation-linked bond manager, and Numeric Investors, LLC, an active extension manager, were placed on Watch as CRPTF assets, held by each manager, were greater than 20% of strategy assets, which exceeded the IPS policy guideline. Ms. Palladino stated that both managers were placed on Watch in order to review their plans for attracting more money to the mandate, and to determine their strategic fit within the Mutual Equity Fund (“MEF”). In response to Ms. Carpenter’s questions, she said that any firm that was added to the Watch list remained on all future reports unless removed due to a positive assessment of the firm or termination.

Ms. Palladino then reported on the Connecticut Horizon Fund (“CHF”) as of March 31, 2012. She stated that the program was designed to afford opportunities for minority, women-owned, emerging firms and Connecticut-based investment managers to compete for investment business, enhance investment returns and nurture the next generation of investment managers. Ms. Palladino provided the performance results for the public market sleeve of the CHF, and noted that as of March 31, 2012, assets under management for the four fund-of-fund managers of the CHF were valued at \$803 million. She remarked on the private equity component of the CHF with \$155 million in commitments made to date. Finally, Ms. Palladino reported returns for the CHF as of March 31, 2012, at 5.14% since inception, 19.59% for the three-year and 2.98% for the five-year, outperforming the benchmark for all three horizons. She noted that the four public market CHF fund-of-fund managers had outperformed the MEF as a whole over the three- and five-year horizons, and she said that the performance results validated the strategic goals of the program.

Ms. Palladino then introduced Lawrence Bancroft, President and CEO of Bivium Capital Partners (“Bivium”), who provided a closer look at Bivium’s successful CHF program. Mr. Bancroft spoke about Bivium’s philosophy of a forward-looking approach and that boutique and emerging managers offered a compelling investment opportunity for institutional investors. He commented on the qualitative and quantitative paths of investment analysis and said that Bivium was constantly looking for ways to add value. In closing, he highlighted Bivium’s CHF sub-managers, and introduced Cindy Emanuel, Managing Director and Alvin Marley, Partner of Lombardia Capital Partners (“Lombardia”), one of Bivium’s sub-managers to provide an overview of its product.

Next, Kevin Vandolder, Principal, and Claire Shaughnessy, Associate Partner, Hewitt EnnisKnupp (“Hewitt”), commented on the Combined Investment Funds (“CIF”) and the CHF as of March 31, 2012.

Ms. Shaughnessy reported on the performance of the three largest funds, the Teachers Retirement Fund (“TERF”), State Employees’ Retirement (“SERF”) and Municipal Employees’ Retirement Fund (“MERF”), against their respective benchmarks. Ms. Shaughnessy then provided an analysis of the attributions for the TERF, SERF and MERF.

Mr. Vandolder then presented manager performance versus the universe and noted that while it was important to consider what position the CRPTF should be in relative to its peers, it was only

one data point and that it was more important to focus on the strategy implementation that was specific to the CRPTF.

In response to Ms. Carpenter, Ms. Shaughnessy commented on the asset allocations, deviations, rebalances and the implications of being over or under weighted within the asset classes. David Himmelreich said that while peer comparisons of performance should not be the sole driving force, comparisons were necessary, especially when considering the CRPTF performance. Chairman Roxe agreed with Mr. Himmelreich and requested a peer review at the August 8, 2012 IAC meeting.

Comments by the Treasurer

Treasurer Denise L. Nappier began her remarks by welcoming the IAC's newest member, Mr. Hall, First Vice President of the Hartford Federation of Teachers, who was appointed by Governor Dannel Malloy to fill the IAC vacancy that was created by the departure of Sharon Palmer. She then commented on Mr. Hall's educational background and professional experience. Next, Treasurer Nappier announced her appointment of Christine Shaw as Deputy Treasurer. She commented on Ms. Shaw's educational background, experience and her ability to fill the Deputy Treasurer role. Chairman Roxe congratulated Deputy Treasury Shaw on her appointment. Next, Treasurer Nappier welcomed the OTT's 2012 summer interns, and she asked those that were in attendance to address the IAC. Marcus Anderson, Ethan Aronowitz, Daniel Chapple, Justin Coleman, John ("Mac") Daly, Corey Schmidt and Jeffrey Weldon all introduced themselves, announced the divisions they were assigned to and spoke about their educational background.

Treasurer Nappier then announced that after considering the feedback from the IAC and the extensive due diligence conducted by OTT staff and the AIF consultant, NEPC, she decided to commit up to \$50 million in Marathon European Credit Opportunity Fund, LP ("Marathon ECO"), a \$1 billion opportunistic pure-play fund dedicated to European credit opportunities that seeks to capitalize on the dislocation and the eventual recovery of European credit markets. She added that the commitment was contingent upon successful contract negotiations.

Next, Treasurer Nappier highlighted the meeting's agenda by first commenting on the recommended revisions to the Investment Policy Statement ("IPS"). She stated that the proposed changes to the IPS largely emanated from the 2012 Asset/Liability ("A/L") Study, and noted that the most significant aspect of the study analysis along with the proposed changes to the various asset allocations were presented as an executive summary to the IAC on April 11, 2012. Treasurer Nappier remarked that the recommended codification of these and other recommended policy amendments were before the IAC today.

Treasurer Nappier stated that these amendments reflected the projected capital market returns, the liquidity needs of each plan, an assessment of liabilities and other financial scenarios. She said that it was determined that the recommended optimal asset allocation would generate a return that supplemented the State's contributions and hopefully would provide the single largest source of funding of the State's pension benefit obligation in order to ensure that each pension plan would

be able to withstand market cycle volatility and, in the case of underfunded plans, lead to a stronger funded ratio over time.

Treasurer Nappier commented that in her opinion the asset allocation policy was being pushed to the limit of prudent risk tolerance. She said that each of the recommended optimal allocations was expected to meet the actuarial investment return assumptions of 8.25% to 8.5%; however, the probability of exceeding the assumed rates of return was less than 50% because of the difficult current global financial markets with extreme fluctuations and the slow pace of economic recovery and the ambitious actuarial investment return assumptions.

Finally, Treasurer Nappier pointed out that within the proposed amendments, the reaffirmation and expansion of two policy statements were also of significance: (1) the intention to encourage investment within the State of Connecticut; and (2) the desire to integrate Environmental, Social and Governance (“ESG”) factors into the money manager due diligence process. Concerning investments within the State, she said that it was in the best interest of the plan beneficiaries to not only have the CRPTF invest with top notch investment managers, but to have some of these firms seek investments in Connecticut’s local economy. Treasurer Nappier added that a strong pension plan and a strong local economy would bode well not only for the long-term financial success of this investment program but for its sponsor, the State of Connecticut.

In closing, Treasurer Nappier thanked the members of the A/L Study Working Group, and noted that she looked forward to feedback from the IAC on today’s presentation of the recommended IPS amendments. She said the next step in the process would be her adoption of the IPS, followed by the IAC’s vote.

Next, Treasurer Nappier reiterated her comments about the importance of encouraging investment within Connecticut and said that two of the CRPTF’s current managers, both headquartered in Hartford, were presenting. She said that Cornerstone Patriot Fund, LP (“the Patriot Fund”), a \$1.4 billion core real estate fund managed by Cornerstone Real Estate Advisers, LLC (“Cornerstone”) (a wholly owned subsidiary of MassMutual) would present. Treasurer Nappier noted that the CRPTF committed \$75 million to the Cornerstone Fund in 2007, and that she was considering an additional investment of up to \$100 million to increase CRPTF’s allocation to core real estate strategies – which are lower risk, cash flow generating real estate investments. She noted that performance of this fund exceeded peer core-focused funds across all performance measurement, consistently placing it in the top quartile for the most recent seven year period. Next, Treasurer Nappier said that SW Pelham IV, L.P., (“Pelham IV”) a \$250 million private equity fund managed by Smith Whiley & Company, LLC (“Smith Whiley”) would also present. She noted that the Fund’s annual cash flow component and J-curve mitigation were particularly attractive in the current low interest rate environment, and she was considering an investment of up to \$25 million, to which certain specific conditions would apply to Pelham IV – namely the requirement to raise a certain fund size prior to an investment in this fund by CRPTF. Treasurer Nappier added that these constraints were required, in part, due to the difficult fund raising environment for many private equity firms in general, and Pelham IV in particular. She remarked that there were merits to having the CRPTF help this Hartford-based mezzanine fund facilitate its fundraising efforts. Treasurer Nappier added that Smith Whiley is a minority/woman-owned, Connecticut-based

private equity firm; in 2003 her administration made a \$20 million commitment to Fund II, but passed on the opportunity to invest in Fund III in 2006 as part of the CRPTF's mainstream portfolio.

Treasurer Nappier said she strongly supported and encouraged investment within Connecticut. To that end, she said that her objective was consistent with the IPS objective to afford investment opportunities to local, minority and women-owned firms and that her interest in Pelham IV was no different. Treasurer Nappier then clarified that the IAC's feedback weighed in her decision as to whether to proceed further with a commitment to Pelham IV and her ultimate decision to invest would be based on the merits and strength of the Fund.

Consideration of Treasurer's Proposed Revisions to the Investment Policy Statement

Chairman Roxe remarked that five IAC members of the Asset Allocation sub-committee participated in the A/L Study. He remarked on the volume of work entailed and noted that all of the participating IAC members agreed on the recommended amendments to the IPS. Chairman Roxe praised and thanked Ms. Palladino and Ms. Thomas for their commitment and work.

Ms. Palladino began by commenting that Treasurer Nappier's A/L Study followed a very thorough and lengthy evaluation process, which included the expertise of the principal investment officers in their respective areas, the CRPTF's general consultant, Hewitt, and its actuaries who ran the analysis, and the IAC Asset Allocation sub-committee. She noted that the objective for each plan and trust was reviewed. Ms. Palladino stated that the liabilities were thoroughly analyzed, the portfolios were optimized and stress tests were performed to test the resiliency of the asset allocation under a variety of economic outcomes. Finally, Ms. Palladino said that the capital market assumptions, liquidity requirements, investment horizon and unique circumstances were all considered with the goal to identify the best risk adjusted returns. She then commented on the new asset allocations that were determined during the A/L Study, explaining that for underfunded plans risk assets were increased from 69% to 74% and for those plans with higher funded ratios, the percentage of risk assets remained the same. Ms. Palladino stated that risk was not increased for the sake of higher risk, but due to the value proposition of equity assets versus fixed income. Finally, she noted that the entire draft IPS was reviewed by the A/L Study Working Group. Overall, she said that this had been a very transparent process.

Peter Thor praised the A/L Study Working Group for its extraordinary work and attention to detail and he asked whether decisions were made by consensus or majority throughout the process. Treasurer Nappier and Ms. Palladino agreed that decisions were made by consensus. Chairman Roxe added that the members of the IAC that were involved in the A/L Study had no problem with any of the recommendations put forth and the consensus was unanimous. Mr. Himmelreich added that the final meeting included five IAC members, Ms. Palladino and Treasurer Nappier, which allowed the IAC members to openly discuss any reservations and/or concerns about how this should be structured and that there were no issues. Mr. Murray agreed that there was definitely unanimous consensus. Treasurer Nappier and the IAC members of the A/L Study Working Group praised Ms. Thomas for her effective leadership.

Chairman Roxe then asked if any of the IAC members that were not present during the process had any questions about the materials that included all the changes, which were distributed in advance of the meeting. In response to Ms. Carpenter's questions regarding the expected rates of return for the Plans, Treasurer Nappier said that the actuarial rate of return did not drive the A/L Study, and she said that the policy plan that was determined was acceptable from a risk perspective. Treasurer Nappier stated that the risk perspective led to the assumed rate of return as prepared by the Funds' actuary and approved by the respective pension boards, but were not used to design an investment plan, and she noted that the CRPTF's goal was to meet a reasonable objective. Ms. Thomas added that if the actuarial rate of return was the driving factor she would want more than 50% probability of reaching that rate, but risk drove the allocation. Mr. Himmelreich added that the intelligent, rational asset allocation was determined by considering risk and the capital market projected returns. Mr. Thor agreed with Mr. Himmelreich, and he commented that the legislature had periodically failed to properly fund the Plans. Discussion continued about the 8.25% and 8.5% actuarial rate of return and the risk factors.

Chairman Roxe said that the Treasurer would review the feedback from the IAC, she would adopt the amendments to the IPS and then present to the IAC for a vote to approve at the August 8, 2012 IAC Meeting. Treasurer Nappier requested the IAC members to provide her with any additional comments within the next two weeks.

Presentation by and Consideration of Cornerstone Patriot Fund, LP

Cherie Santos-Wuest, Principal Investment Officer, provided opening remarks and introduced the Patriot Fund, a real estate investment opportunity. Ms. Santos-Wuest said that Cornerstone's seasoned team of real estate investors managed approximately \$9.1 billion of assets. She said that Cornerstone's holdings in the U.S. and Europe have been invested across equity, debt and real estate securities, which afforded Cornerstone a deep knowledge base of real estate markets within the U.S. and abroad. Ms. Santos-Wuest also commented on the CRPTF's ongoing relationship with Cornerstone for the past six years, and noted that its investment in the Patriot Fund reflected top quartile returns, both in terms of income and appreciation, and on a risk-adjusted basis. In response to Ms. Thomas, she said that the Patriot Fund was an open-ended core real estate fund that featured stable, low-volatility returns, current income and high liquidity that allowed investors the ability to exit the fund on a quarterly basis. Ms. Santos-Wuest responded to Mr. Thor's question regarding the fund's property type diversification that was overweight in apartment assets and underweight in office by stating that there was an advantage to this strategy because in high barrier-to-entry markets and gateway cities where Cornerstone invests, the demand for apartments was greater than supply, which bolstered the fund's income and returns.

Presentation by Cornerstone Real Estate Advisers, LLC

Cornerstone, represented by Pamela McKoin, Vice President and Denise Rowe Stake, Portfolio Manager, made a presentation to the IAC. Ms. McKoin began by providing an overview of Cornerstone, headquartered in Hartford, with 181 employees in three offices in Connecticut.

Ms. Stake remarked that the key strategic objectives of the Patriot Fund were to focus on barrier markets and limit leverage, which was typically 20% or lower. She noted that the Patriot Fund's average outperformance was 121 bps per year compared to the benchmark, with underperformance in only three years since inception in 2004. In conclusion, Ms. Stake remarked that the Patriot Fund's clear investment objectives of minimizing risk, lower leverage, strong cash flow and systematic barrier market approach were key to the fund's strong track record.

In response to Chairman Roxe, Ms. Stake stated that each market had its own infrastructure issues and that a barrier market had limited potential supply. Mr. Himmelreich posed several questions regarding whether there were any opportunities within core real estate, as large amounts of capital were chasing this type of investment. Ms. Stake responded that Cornerstone had competitive advantages of business longevity and a strong reputation as a buyer who can execute on acquisitions, which allowed for opportunity and reasonable execution on core real estate investments. Discussion continued regarding the property types within the barrier markets, how often the portfolio was valued, the investment queue and redemption requests. In response to Ms. Carpenter, Ms. Stake commented on the California market; discussion continued regarding new investment opportunities.

Roll Call of Reactions to Cornerstone Patriot Fund

Chairman Roxe requested the IAC members to provide input on the Patriot Fund. Mr. Himmelreich, Mr. Murray, Ms. Carpenter, Michael Freeman, Ms. Thomas, Mr. Hall, Mr. Thor and Chairman Roxe were all in favor of the investment. Mr. Himmelreich added that this was a positive direction for the REF, and Ms. Thomas noted that the fee reduction was good to see.

Chairman Roxe asked for a motion to waive the 45-day comment period for the Patriot Fund. **A motion was made by Ms. Thomas, seconded by Mr. Freeman, to waive the 45-day comment period for Cornerstone Patriot Fund, LP. The motion was passed unanimously.**

Presentation by SW Pelham IV, L.P.

Terrence Purcell, Interim Principal Investment Officer, provided opening remarks and introduced Pelham IV, a private investment opportunity. Mr. Purcell commented on Pelham IV's formation to invest in mezzanine debt securities alongside private equity sponsors executing leveraged buyouts and recapitalizations of companies with revenues between \$25 million and \$250 million. Next, Mr. Purcell provided an overview of Smith Whiley, Pelham IV's general partner, and commented on the CRPTF's investments in Smith Whiley's first two funds. He then commented on Pelham IV's potential fit within the CRPTF and on Smith Whiley's qualifications, investment management experience and singular focus on mezzanine debt investing.

In response to Mr. Thor, Mr. Purcell discussed Smith Whiley's mixed performance for its prior three funds and its staff changes. He cited Smith Whiley's operating loss in 2011 and expectation of a return to profitability contingent upon successful fundraising for Pelham IV. Ms. Thomas posed several questions regarding Smith Whiley's profitability, existing funds, and a potential CRPTF investment in Pelham IV. Mr. Purcell first highlighted the conditional nature of Treasurer

Nappier's investment recommendation not to invest unless Pelham IV raised at least \$100 million. In response to Ms. Thomas, Bradley Atkins, Principal of Franklin Park Associates, LLC ("Franklin Park"), consultant for the PIF, commented on Pelham IV's fit for the CHF program. Responding to Ms. Carpenter, Mr. Atkins characterized Smith Whiley's recent senior management team changes as insignificant, and noted that the PIF's recent commitments to mezzanine debt were low. Chairman Roxe questioned Smith Whiley's operational stability due to its operating loss in 2011 and bank loan balances. He expressed his reservations with the firm and commented on earlier fund performance, staff changes, and its loan and grant package from Connecticut's Department of Economic and Community Development ("DECD").

Presentation by Smith Whiley & Company

Smith Whiley, represented by Gwendolyn Smith Iloani, President and CEO, Colette Nakhoul and Kurt Nyman, Senior Managing Directors, made a presentation to the IAC. Ms. Iloani began by providing an overview of Hartford-based Smith Whiley and its detail-oriented, institutionally focused approach. My Nyman noted Smith Whiley's significant investments in Connecticut-based companies.

Next, Ms. Iloani provided an investment performance summary as of March 31, 2012 for Pelham I, II and III. She commented on the general market environment which challenged Pelham I and all similar vintage year funds. Ms. Iloani noted that Pelham II and Pelham III had generated over \$106 million in liquidity since January 2009 during an economically weak period. Next, Ms. Iloani detailed the overall performance of Pelham II and III and highlighted some of the funds' individual investments.

Ms. Nakhoul commented on Pelham IV's modeling based on the core mezzanine investing strategy executed in Pelham II and Pelham III, and noted the opportunity for capital appreciation through equity participation. She spoke about Pelham IV's performance target of a 1.7x gross cash-on-cash multiple. In closing, Ms. Iloani said that the Smith Whiley team was seasoned and cohesive with deep investment experience, infrastructure and branding in the mezzanine asset class.

In response to Ms. Thomas, Ms. Nakhoul acknowledged that she had stepped down from the executive committee but still played a key role on the investment committee and was focused on managing the firm's fund reporting, accounting, investor relations and communications. Chairman Roxe posed questions regarding Smith Whiley's comfort level in moving ahead with a larger fund size for Pelham IV. Mr. Nyman said that the team evaluated the strong market demand for mezzanine debt and Smith Whiley's very strong deal sourcing network. In response to Chairman Roxe's question regarding the operating loss in 2011, Ms. Nakhoul agreed that this had been a challenge for Smith Whiley due to the recession and the longer market cycles compounded by the fact that its assets under management had declined, which was good for investors like the CRPTF, but negatively affected its fee base. She added that because the team believed that Pelham IV would be fully funded, they had not downsized the operation. Ms. Nakhoul stated that its first close was anticipated in August 2012. Ms. Iloani and Ms. Nakhoul

then discussed Smith Whiley's impending profit interest transactions from Pelham II, and Pelham IV's firm and soft commitments and its additional potential investors.

Roll Call of Reactions to Pelham IV

Chairman Roxe requested the IAC members to provide input on Pelham IV. Ms. Thomas, Mr. Himmelreich, Mr. Thor and Mr. Hall agreed to the investment, but all expressed reservations. Mr. Freeman was undecided. Ms. Carpenter, Mr. Murray and Chairman Roxe were not in favor of the investment. Ms. Thomas added that Smith Whiley did a significantly better job on Pelham III and they are a local company, but it was a close call for her. Mr. Himmelreich said that while he had significant reservations, he was in favor of the investment because it was a women/minority Connecticut firm that had positive results for Funds II and III. Mr. Thor added that he also wondered whether the CHF would be a better fit for Pelham IV, and he suggested consistent fund terms and negotiating a higher transaction fee and a no-fault provision. He added that it was important to remember that Smith Whiley created jobs for Connecticut residents. Mr. Hall questioned whether the CRPTF commitment was based on Smith Whiley's ability to raise additional funds, to which Treasurer Nappier said yes and that no money would be drawn and management fees would not be paid until the necessary funds had been raised. In response to Mr. Freeman, Mr. Atkins said that the DECD gave Smith Whiley a \$250,000 loan at 4% and a \$100,000 grant under the Small Business Express program. Mr. Freeman then said that he would rely on the Treasurer's decision regarding the investment. Chairman Roxe agreed that it was important to rely on Treasurer Nappier's decision, but added that she would also take the IAC feedback into consideration. He then said that the firm was in trouble, the performance on Pelham II and III was satisfactory, but he was concerned about the organizational restructuring and the prospect that Pelham IV could not raise the necessary funds so he would not want to risk the State's money. Chairman Roxe noted that there was unusual concern about the investment since four IAC members were in favor, but each had reservations about the investment, one was undecided and three opposed the investment.

Chairman Roxe asked for a motion to waive the 45-day comment period for Pelham IV. **A motion was made by Ms. Thomas, seconded by Mr. Hall, to waive the 45-day comment period for SW Pelham IV, L.P. The motion was passed unanimously.**

CRPTF Sudan Initiative Report

Shelagh McClure, Director of Compliance, provided an annual report regarding activities of the OTT under Connecticut's Sudan law and Iran law; Connecticut General Statutes §§3-21e and 3-13g, respectively. Ms. McClure began by stating that in June 2012, Treasurer Nappier approved a recommendation under the Sudan law to prohibit investment of CRPTF funds in the following companies, including their majority-owned subsidiaries because each were operating in the weapons sector and were reported as providing military equipment to the Government of Sudan: AviChina Industry and Technology Ltd.; Jiangxi Hongdu Aviation Industry Ltd.; and China North Industries Corporation. She noted that the written report provided background information on these companies. Ms. McClure pointed out that at the time of the decision, the CRPTF had no holdings in any of the companies, but the companies were added to the list of prohibited

investments, thereby barring future investments by any of the CRPTF's managers. She added that Treasurer Nappier recently approved this action and the CRPTF's managers were being notified of the prohibition.

With respect to the Iran statute, Ms. McClure stated that it had been amended in 2011, and it now followed a similar framework as the Sudan law. She said that letters were sent to 15 companies that did business in the energy sector in Iran, with a deadline of June 30, 2012 for response. Ms. McClure noted that the responses would be analyzed and recommendations would be made as to whether there were grounds for proposing divestment or prohibition of investments. She noted that none of these 15 companies were already on the OTT's prohibited list with regard to Sudan. In response to Chairman Roxe, Ms. McClure stated that if a company did not respond and there is sufficient evidence that the company is in fact doing business in Iran and operating in the energy sector, OTT staff then would have to decide whether it was appropriate to recommend that the Treasurer divest from and/or prohibit future investment in these companies. She added that many other pension plans had already chosen to divest or prohibit investment in those companies. Mr. Thor asked whether not receiving a response would be considered a negative inference, to which Ms. McClure responded that the statute did allow the OTT to consider this a factor. She added that some companies on the list had already responded.

PIF Review as of December 31, 2011

Mr. Purcell reported on the performance of the PIF for the quarter and year ended December 31, 2011. Noting the PIF's targeted return of the 10-year averaged annualized rate of return of the S&P 500 Index plus a 500 bps premium per year, Mr. Purcell reported that the PIF's 6.9% gain in 2011 outperformed the S&P 500 Index + 500 bps Public Market Equivalent by 150 basis points. Similarly, he reported that the PIF's respective five-year, ten-year and inception-to-date returns were 8.1%, 6.2% and 8.3%, respectively; each also surpassed the S&P 500 Index + 500 bps Public Market Equivalent, and its three-year annualized return was 13.7%. Mr. Purcell said that the majority of the PIF's vintage years since 2002 had generated returns near the top quartile benchmarks. He cited Calendar Year ("CY") 2011 as an active year for the PIF with \$199 million in new capital committed, \$385 million in total capital contributions to partnerships, \$435 million of distributions and positive cash flow of \$50.3 million. In closing, Mr. Purcell commented that while economic growth continued to be slow, the persistently low interest rates combined with historically high levels of cash on corporate balance sheets provided a bullish backdrop for general partners' near and intermediate-term outlooks.

Next, Mr. Atkins commented on recent vintage years, noting positive returns for the 2002, 2003 and 2004 vintage years of 25.6%, 10.3% and 15.6%, respectively. He reported gains for vintage years 2005 and 2006 of 3.4% and 3.2%, respectively; citing these as difficult vintages because of the recession and credit crisis. Mr. Atkins stated that vintage years 2007 and 2008 earned 15% and 14.6%, respectively; and that 2009 vintage year funds were also performing well to date.

In response to Ms. Thomas' questions, Mr. Atkins said that private equity transaction pricing had increased since 2001 from a cash flow multiple of six times to nine times currently, while the pricing spread between the public and private equity markets had narrowed. He said that the

narrowing spread between the public and private market could moderate the private equity return outlook relative to historic performance.

AIF Review as of March 31, 2012

Mr. Purcell reported on the performance of the AIF for the quarter ended March 31, 2012. He said that the majority of the AIF's committed capital was in the CRPTF's fund-of-hedge funds program, which began in early 2011, with investments in four Prudence Crandall ("PC") funds. Mr. Purcell reported that the portfolio earned 4.25% for the March quarter, which compared favorably with the Dow Jones Credit Suisse Hedge Fund Composite Index's return of 4.0% and the HFRI Fund of Funds Composite Index's return of 3.4%. He further reported that the four funds generated returns ranging from 3.4% to 5.0%. Mr. Purcell added that the positive CY 2012 returns followed a difficult period that all public markets faced during the middle of CY 2011. He noted the AIF fund-of-hedge funds' portfolio's combined \$497 million market value and diversification across 131 hedge funds with only modest underlying manager overlap.

Next, Mr. Purcell commented on the CRPTF's \$125 million total commitment to the AIF's two private market investments: ArcLight Energy Partners Fund V, L.P. and Energy Fund XV, L.P., and noted that the two commitments, combined with the \$497 million PC fund investments, brought the AIF's total committed capital to approximately \$622 million as of March 31, 2012, representing about 2.5% of total CRPTF assets.

Sean Gill, Partner of NEPC and the AIF's consultant, provided additional detail on the continued construction of the AIF portfolio and the pending closing for Marathon ECO, the AIF's first opportunistic allocation. Mr. Gill noted that the PC portfolios declined in aggregate approximately 1.5% for April and May, protecting capital on the down side. Finally, he commented on the positive performance and mitigated J-curve of the AIF's real assets investments.

REF Review as of December 31, 2011

Ms. Santos-Wuest reported on the performance of the REF for the quarter ended December 31, 2011. Next, Mr. Booth provided an overview of the portfolio's historical performance against its benchmark. He reported positive returns in terms of the recovery of commercial real estate with net returns of 2.5% and 9.6% for the year and quarter ended December 31, 2011, respectively. With respect to the gross return for the year ended December 31, 2011, Mr. Booth reported earnings of 12.2% versus the NCREIF Property Index benchmark of 14.3%.

Mr. Booth remarked that the recovery had been broad but uneven, and development remained challenged. He said that everything in the REF's core portfolio was solid and had always been accretive to the benchmark. Additionally, Mr. Booth reported that one of the three Public-Private Investment Program ("PPIP") funds had produced strong returns during the quarter ended December 31, 2011. He remarked that the PPIP funds were invested in 2009 and 2010; a very challenging time. Mr. Booth added that everything invested in 2008 had been very accretive to the

performance and said that the CRPTF had approved six investments since 2008; five were top quartile performers and the sixth performed in the top half.

Next, Ms. Santos-Wuest commented that due to the gap in investment activity between positive vintage years of 1999 and 2004, and the subsequent active investment activity during height-of-market valuation between 2005 and 2008, the real estate portfolio underperformed and will continue to underperform on a one-, three-, and five-year basis. However, she added that because real estate was an asset class that provided current income, despite the relative underperformance, the fund investments had actually provided annualized cash-on-cash returns of 6.2%, on a weighted-average basis since inception.

Ms. Santos-Wuest reported that many real estate managers were expected to return capital with marginal but positive rates of return at 1.1 to 1.2 times capital invested. With respect to the investments made during the 1990's, Ms. Santos-Wuest reported that most were winding down. Regarding the REF investments made between 2009 and today, she said that five were focused in opportunistic purchase of distressed debt and three within the PPIP program. Ms. Santos-Wuest reported that the PPIP investments were expected to deliver mid-teen returns and were on track to meet or exceed their targets.

Going forward, Ms. Santos-Wuest discussed the proposed REF increase in allocation to real estate from 5% to 7% of the CRPTF portfolio, to take advantage of investing in the rising real estate market environment and to proactively manage risk in a low interest rate, fixed income environment. She said that the current focus was on core strategies, which produced current income with short duration and some measure of liquidity. In closing, she thanked the Townsend Group for their excellent work. Ms. Santos-Wuest then responded to questions posed by Chairman Roxe on individual funds.

Short-Term Investment Fund Review as of March 31, 2012

Lawrence Wilson, Assistant Treasurer for Cash Management, reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ended March 31, 2012, which had an average annualized yield of 12 bps and exceeded its benchmark by 5 bps, resulting in an additional \$700,000 in interest for investors in the STIF. For the 12-month period ended that same time, Mr. Wilson reported that the STIF had an annual return of 18 bps; 13 bps above the benchmark, thereby earning an additional \$6.2 million in interest for the STIF's investors. He said the STIF had maintained its conservative investment strategy with overnight or same-day liquidity of approximately 61% of fund assets, and that the weighted-average maturity was 30 days. Mr. Wilson reported that 73% of the portfolio was invested in securities which were issued, guaranteed or insured by the U.S. government or federal agencies, or in repurchase agreements backed by such securities. He concluded his presentation by noting that the STIF's reserves totaled \$47 million, nearly 0.9% of fund assets. Mr. Wilson confirmed Chairman Roxe's comment that the STIF was not stretching to take additional risk in the current low interest rate environment. He said that the STIF was required to be 75% in securities rated A1+ or in overnight repurchase agreements, which did require adjustments over the last few months.

INVESTMENT ADVISORY COUNCIL
Wednesday, June 13, 2012

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Other Business

Chairman Roxe noted that the IAC budget for the quarter ended December 31, 2011 was in the packet. He invited the IAC members to submit agenda items for the August 8, 2012 IAC meeting.

Comments by the Chairman

Chairman Roxe commented on the meeting.

There being no further business, the meeting was adjourned at 1:26 p.m.

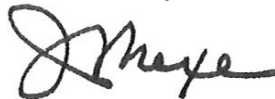
This meeting was recorded on audio tape.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Denise L. Napier", written over a large, loopy flourish.

DENISE L. NAPPIER
SECRETARY

Reviewed by

A handwritten signature in black ink, appearing to read "J. Roxe", written in a cursive style.

JOSEPH D. ROXE
CHAIRMAN